

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

JUNE 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

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September 12, 2008

INDEPENDENT AUDITORS' REPORT

Board of Education
Northport Public School
Northport, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northport Public School as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northport Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northport Public School as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 2008, on our consideration of Northport Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northport Public School, Northport, Michigan basic financial statements. The combining individual fund financial statements are not a required part of the basic financial statements. The combining individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Our discussion and analysis of Northport Public School District (the “School District”) financial performance provides an overview of the school district’s financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the school district’s financial statements, which immediately follow this section.

Northport School District is one of the few remaining one building schools in Michigan. The School District is located in the tip of Leelanau County. Northport Public School serves students in grades Kindergarten through 12th grade. The population for the 2007-2008 school year was 146 pupils based on the September 2007 count. Students attending the School District are afforded more individualized attention due to small class sizes. Educators in the School District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Northport Public School District offers a core academic curriculum that meets and or exceeds state guidelines at all levels.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, school districts’ major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year’s payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years’ debt service are not recorded in the fund financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely resemble those presented by business and industry. The entire School District’s assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the School District.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

C. Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended June 30, 2008 and 2007:

	<u>2007-2008</u> <u>Fiscal Year</u>	<u>2006-2007</u> <u>Fiscal Year</u>
Assets		
Current Assets	\$ 3,150,794	\$ 2,982,680
Non Current Assets		
Capital Assets-Net	<u>6,798,510</u>	<u>7,014,461</u>
Total Assets	<u><u>\$ 9,949,304</u></u>	<u><u>\$ 9,997,141</u></u>
Liabilities		
Current Liabilities	\$ 809,729	\$ 795,915
Non Current Liabilities	<u>4,364,082</u>	<u>4,493,042</u>
Total Liabilities	<u>5,173,811</u>	<u>5,288,957</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	2,368,510	2,269,461
Restricted for Debt Service	546,431	479,911
Restricted for Capital Projects	912,879	957,442
Unrestricted	<u>947,673</u>	<u>1,001,370</u>
Total Net Assets	<u>4,775,493</u>	<u>4,708,184</u>
Total Liabilities and Net Assets	<u><u>\$ 9,949,304</u></u>	<u><u>\$ 9,997,141</u></u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2008, the School District's net assets increased by \$67,309. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2008, \$235,202 was recorded for depreciation expense.

NORTHPORT PUBLIC SCHOOL
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2008, \$19,251 of expenditures were capitalized and recorded as assets of the School District. These additions to the School District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$215,951 for the fiscal year ended June 30, 2008.

E. Results of Operations

For the fiscal years ended June 30, 2008 and 2007, the results of operations, on a School District-wide basis, were:

	<u>2008</u>	<u>2007</u>
	<u>Amount</u>	<u>Amount</u>
General Revenues		
Property Taxes	\$ 3,291,368	\$ 3,342,652
State Sources	3,806	40,127
Investment and Other	243,256	219,813
Total General Revenues	<u>3,538,430</u>	<u>3,602,592</u>
Program Revenues		
Charges for Services	64,171	41,973
Operating Grants	448,706	544,620
Total Program Revenues	<u>512,877</u>	<u>586,593</u>
Total Revenues	<u>4,051,307</u>	<u>4,189,185</u>
Expenses		
Instruction	1,655,119	1,450,020
Supporting Services	1,654,715	1,504,094
Community Services	3,000	0
Food Service	118,240	97,436
Athletic Activities	68,649	65,410
Other Transactions	68,666	6,692
Interest on Long-Term Debt	180,407	197,671
Unallocated Depreciation	235,202	227,497
Total Expenses	<u>3,983,998</u>	<u>3,548,820</u>
Change in Net Assets	<u>\$ 67,309</u>	<u>\$ 640,365</u>

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The School District levies 13.39 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2007-2008 fiscal year, the School District levied \$2,803,271 in non-homestead property taxes for general operations. This represented an increase of 7.70% from the prior year. The amount of unpaid property taxes at June 30, 2008, was \$4,750.

2. State Sources

The State of Michigan funds districts based on a blended student enrollment. For the year ended June 30, 2008, the foundation allowance was based on a blended average of pupil membership counts taken in February and September of 2007, 2006 and 2005. For the 2007-2008 fiscal year, the School District received a base foundation allowance of \$9,232 per student FTE. However, no actual state aid was received because the non-homestead property taxes are greater than the gross foundation allowance.

3. Student Enrollment

The following schedule summarizes the blended general education student enrollment for the past three fiscal years:

<u>Fiscal Year</u>	<u>Blended Student FTE</u>	<u>FTE Change from Prior Year</u>
2007-2008	155	(11)
2006-2007	166	(25)
2005-2006	191	28

4. Operating Grants

The School District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2008, federal, state, and other grants accounted for \$448,706. This represents a decrease over the total grant sources of \$544,620 received for the 2006-2007 fiscal year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

5. Sinking Fund

For the fiscal year ended June 30, 2008, the School District did not levy a sinking fund tax levy but received \$112 from delinquent taxes. The School District is utilizing the remaining fund balance in the fund as part of an ongoing capital repair program to the School District's building and to fund the 2003 School Improvement Bonds.

6. Comparative Expenditures and Transfers

A comparison of the expenditures and transfers reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures and Transfers	2007-2008 Fiscal Year	2006-2007 Fiscal Year	Increase (Decrease)
Instruction	\$ 1,654,079	\$ 1,449,110	\$ 204,969
Supporting Services	1,429,715	1,517,330	(87,615)
Community Services	3,000	0	3,000
Food Service	118,240	97,436	20,804
Athletic Activities	68,649	65,410	3,239
Debt Service	497,120	476,120	21,000
Other Transactions	68,666	6,692	61,974
Capital Outlay	19,251	259,745	(240,494)
Transfers Out	184,222	163,082	21,140
Total Expenditures and Transfers	<u>\$ 4,042,942</u>	<u>\$ 4,034,925</u>	<u>\$ 8,017</u>

A comparison of expenditures and transfers by fund is as follows:

Expenditures and Transfers	2007-2008 Fiscal Year	2006-2007 Fiscal Year	Increase (Decrease)
General Fund	\$ 3,274,655	\$ 3,142,907	\$ 131,748
Food Service Fund	118,240	97,436	20,804
Athletic Activities Fund	68,649	65,410	3,239
Debt Service Fund-1999	497,795	476,795	21,000
Capital Projects-QZAB	0	150,748	(150,748)
Capital Projects-Sinking Fund	83,603	101,629	(18,026)
Total Expenditures and Transfers	<u>\$ 4,042,942</u>	<u>\$ 4,034,925</u>	<u>\$ 8,017</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2007-2008 fiscal year, the School District amended the general fund budget one time with the Board adopting the changes in June 2008. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
Total Revenues	<u>\$ 3,253,674</u>	<u>\$ 3,342,956</u>	<u>\$ 3,436,130</u>	<u>\$ 93,174</u>
<u>EXPENDITURES</u>				
Instruction	\$ 1,680,633	\$ 1,663,899	\$ 1,654,079	\$ (9,820)
Supporting Services	1,453,116	1,721,391	1,429,715	(291,676)
Community Services	3,500	3,500	3,000	(500)
Other Transactions	0	0	67,991	67,991
Transfers Out	<u>116,425</u>	<u>126,500</u>	<u>119,870</u>	<u>(6,630)</u>
Total Expenditures	<u>\$ 3,253,674</u>	<u>\$ 3,515,290</u>	<u>\$ 3,274,655</u>	<u>\$ (240,635)</u>

The original revenue budget of \$3.253 million was increased to \$3.342 million primarily as a result of anticipated increases in grant income.

The original expenditure budget of \$3.253 million was increased to \$3.515 million primarily as a result of anticipated increases in operational costs.

The total revenues variance of \$93,174 is 2.78% of total budgeted revenues and the total expenditures variance of \$240,635 is approximately 7.35% of the total General Fund expenditures for the year.

H. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2007-2008 fiscal year, the School District had invested over \$6.798 million in a broad range of capital assets, including a school building and facilities, school buses and other

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

vehicles, and various types of equipment. This represents a net decrease of \$215,951 over the prior fiscal year. Depreciation expense for the year amounted to \$235,202, bringing the accumulation to \$2.404 million as of June 30, 2008.

2. Long-Term Debt

At June 30, 2008, the School District had \$4,460,412 in bonded debt outstanding. This represents a reduction of \$315,000 over the amount outstanding at the close of the prior fiscal year as no new debt was issued in the 2007-2008 fiscal year.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the School District was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country and the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2008-09 and 2009-2010 fiscal years. However, currently the actual non-homestead property tax levy is greater than the gross foundation allowance, and thus the School District anticipates that no actual foundation allowance revenue will be received from the State.
- State-wide pressures for equity in the funding of schools always poses the possibility that the State of Michigan makes changes in the funding structure for schools and that the District's "Out of Formula" status could be changed. Although not anticipated, district officials must plan for the eventual possibility of significantly less dollars per student should these demands for equity result in changes in State school funding.
- The District's Non Homestead authorization expires at the end of the 2008-09 fiscal year. The district must successfully plan for a successful Non Homestead election.
- As with other employers, the School District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. On the positive side, the State has decreased the retirement rate for 2008-2009 to 15.54% from 16.72%; however, increases are projected in future years. The number of retirees projected to occur over the next few years may also result in higher annual increases.
- The contracts with the Northport Education Associating and the Northport Education Support Personnel Association expire in August 2009 and June 2009, respectively. The District must responsibly negotiate agreements that recognize the limits of the district's resources.
- The No Child Left Behind Act (NCLB) and the State of Michigan continue to increase the focus on student achievement. As it has done since the inception of NCLB, the District must successfully earn AYP status and commit all necessary resources toward the achievement goals of the District.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

- The District's on-going and very costly special education hearing, and the real possibility of continued appeals and further hearing complaints, presents a significant threat to the financial integrity of the District. Significant costs have been incurred so far with even more costs associated with the 2008-09 year and subsequent years. In fact, the District must plan for the possibility of as many as 13 more years of associated costs for the current special education dispute. The Board has designated \$225,000 of its General Fund balance for these potential future payments and the total future costs could easily exceed that amount if the final outcome is unfavorable to the District.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Karen Hammersley, Business Manager at Northport Public School District, 104 Wing Street, P.O. Box 188, Northport, Michigan 49670, Fax (231) 386-9838, Telephone (231) 386-5153.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,119,889
Due from Other Governmental Units	29,775
Inventory	<u>1,130</u>
Total Current Assets	3,150,794

NON CURRENT ASSETS

Capital Assets, Net of Accumulated Depreciation	<u>6,798,510</u>
TOTAL ASSETS	<u><u>\$ 9,949,304</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 99,680
Accrued Interest Payable	32,614
Accrued Expenses	98,258
Salaries Payable	179,699
Deferred Revenue	44,478
Current Portion of Non Current Liabilities	<u>355,000</u>
Total Current Liabilities	<u>809,729</u>

NON CURRENT LIABILITIES

Bonds Payable	4,460,412
Contingent Liabilities	225,000
Compensated Absences	33,670
Less Current Portion of Non Current Liabilities	<u>(355,000)</u>
Total Non Current Liabilities	<u>4,364,082</u>
Total Liabilities	<u>5,173,811</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	2,368,510
Restricted	
Debt Service	546,431
Capital Projects	912,879
Unrestricted	<u>947,673</u>
Total Net Assets	<u>4,775,493</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,949,304</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
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STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 1,655,119	\$ 25,696	\$ 409,294	\$ (1,220,129)
Supporting Services	1,654,715	0	0	(1,654,715)
Community Services	3,000	0	0	(3,000)
Food Service	118,240	26,944	39,412	(51,884)
Athletic Activities	68,649	11,531	0	(57,118)
Other Transactions	68,666	0	0	(68,666)
Interest on Long-Term Debt	180,407	0	0	(180,407)
Depreciation-Unallocated	235,202	0	0	(235,202)
Total Governmental Activities	\$ 3,983,998	\$ 64,171	\$ 448,706	(3,471,121)
<u>GENERAL REVENUES</u>				
Property taxes				
Levied for General Purposes				2,816,545
Levied for Debt Service				474,711
Levied for Capital Projects				112
State Sources				3,806
Investment and Other				243,256
Total General Revenues				3,538,430
Change in Net Assets				67,309
<u>NET ASSETS</u> - Beginning of Year				4,708,184
<u>NET ASSETS</u> - End of Year				\$ 4,775,493

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	GENERAL FUND	1999 DEBT SERVICE FUND	QZAB DEBT SERVICE FUND
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,601,187	\$ 241,207	\$ 337,838
Due from Other Governmental Units	28,940	0	0
Inventory	0	0	0
Total Assets	<u>\$ 1,630,127</u>	<u>\$ 241,207</u>	<u>\$ 337,838</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 99,680	\$ 0	\$ 0
Accrued Expenses	98,258	0	0
Salaries Payable	179,699	0	0
Deferred Revenue	44,478	0	0
Total Liabilities	<u>422,115</u>	<u>0</u>	<u>0</u>
<u>FUND BALANCES</u>			
Reserved for Inventory	0	0	0
Reserved for Debt Service	0	241,207	337,838
Reserved for Capital Projects	0	0	0
Unreserved, Designated Reported In General Fund	225,000	0	0
Unreserved, Undesignated Reported In:			
General Fund	983,012	0	0
Special Revenue Funds	0	0	0
Total Fund Balances	<u>1,208,012</u>	<u>241,207</u>	<u>337,838</u>
Total Liabilities and Fund Balances	<u>\$ 1,630,127</u>	<u>\$ 241,207</u>	<u>\$ 337,838</u>

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$9,202,469 and the accumulated depreciation is \$2,403,959.

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable
Contingent Liabilities
Accrued Interest on Bonds
Compensated Absences

Total Net Assets - Governmental Activities

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

CAPITAL PROJECTS SINKING FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 912,879	\$ 26,778	\$ 3,119,889
0	835	29,775
0	1,130	1,130
<u>\$ 912,879</u>	<u>\$ 28,743</u>	<u>\$ 3,150,794</u>

\$ 0	\$ 0	\$ 99,680
0	0	98,258
0	0	179,699
0	0	44,478
<u>0</u>	<u>0</u>	<u>422,115</u>

0	1,130	1,130
0	0	579,045
912,879	0	912,879
0	0	225,000
0	0	983,012
0	27,613	27,613
<u>912,879</u>	<u>28,743</u>	<u>2,728,679</u>
<u>\$ 912,879</u>	<u>\$ 28,743</u>	<u>\$ 3,150,794</u>

\$ 2,728,679

6,798,510

\$ 4,460,412
225,000
32,614
33,670
<u>(4,751,696)</u>
<u>\$ 4,775,493</u>

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	GENERAL FUND	1999 DEBT SERVICE FUND	QZAB DEBT SERVICE FUND	CAPITAL PROJECTS SINKING FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>						
Property Taxes	\$ 2,816,545	\$ 474,711	\$ 0	\$ 112	\$ 0	\$ 3,291,368
Investment Earnings	98,155	17,625	5,914	38,928	0	160,622
State Sources	157,633	0	0	0	6,213	163,846
Federal Sources	222,467	0	0	0	33,199	255,666
Other Transactions	141,330	0	0	0	38,475	179,805
Total Revenues	3,436,130	492,336	5,914	39,040	77,887	4,051,307
<u>EXPENDITURES</u>						
Instruction	1,654,079	0	0	0	0	1,654,079
Supporting Services	1,429,715	0	0	0	0	1,429,715
Community Services	3,000	0	0	0	0	3,000
Food Service	0	0	0	0	118,240	118,240
Athletic Activities	0	0	0	0	68,649	68,649
Debt Service						
Principal	0	315,000	0	0	0	315,000
Interest	0	182,120	0	0	0	182,120
Capital Outlay	0		0	19,251	0	19,251
Other Transactions	67,991	675	0	0	0	68,666
Total Expenditures	3,154,785	497,795	0	19,251	186,889	3,858,720
Excess (Deficiency) of Revenues Over (Under) Expenditures	281,345	(5,459)	5,914	19,789	(109,002)	192,587
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	0	0	64,352	0	119,870	184,222
Transfers Out	(119,870)	0	0	(64,352)	0	(184,222)
Total Other Financing Sources (Uses)	(119,870)	0	64,352	(64,352)	119,870	0
Net Change in Fund Balances	161,475	(5,459)	70,266	(44,563)	10,868	192,587
<u>FUND BALANCE</u> - Beginning of Year	1,046,537	246,666	267,572	957,442	17,875	2,536,092
<u>FUND BALANCE</u> - End of Year	\$ 1,208,012	\$ 241,207	\$ 337,838	\$ 912,879	\$ 28,743	\$ 2,728,679

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 192,587
--------------------------------------------------------	------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital Outlay	\$ 19,251	
Depreciation Expense	<u>(235,202)</u>	(215,951)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the the amounts earned by \$1,040. (1,040)

Contingent liabilities that are not expected to be paid with expendable available resources are not expenditures in the governmental funds, but are recorded on the government wide financial statements. (225,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 315,000

Accrued interest on bonds is recorded in the statement of activities when incurred; it not recorded in governmental funds until it is paid:

Accrued Interest Payable - June 30, 2007	34,327	
Accrued Interest Payable - June 30, 2008	<u>(32,614)</u>	<u>1,713</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 67,309</u>
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The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2008

		<u>AGENCY FUND</u>
	<u>ASSETS</u>	
Cash and Cash Equivalents		<u>\$ 46,736</u>
	<u>LIABILITIES</u>	
Due to Student Groups		<u>\$ 46,736</u>

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Northport Public School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District is a Michigan public school district located in Leelanau County which consists of one K-12 building and primarily serves the Northport Community. As of June 30, 2008, the District employed 17 professional staff and 17 non-professional staff and had 146 students enrolled within the District as of the September 2007 count. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the District holds assets in the capacity of an agent.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Major individual governmental funds are reported as separate columns in the fund financial statements and all other funds are combined and reported as non major funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 1999 *DEBT SERVICE FUND* and the *QZAB DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *CAPITAL PROJECTS SINKING FUND* records capital project activities funded with Sinking Fund millage as well as funding for the Qualified Zone Academy Bond (QZAB) obligations.

Other Non-Major Funds

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Material property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on a blended average of pupil membership counts taken in February

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

and September of 2007, 2006 and 2005. For fiscal year ended June 30, 2008, the per pupil foundation allowance was \$9,232.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as accounts receivable. However, because the actual local non homestead property tax levy of 13.39 mills is greater than the gross foundation allowance, the District received no actual foundation allowance revenue from the State for the year ended June 30, 2008.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government or obligations of the State.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).

The School's deposits and investments are held separately by several of the School District's funds.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due July 1. Unpaid taxes become delinquent as of September 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material and are not accrued.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of taxable valuation:

	Taxable Value	Mills	Tax Levy
General Fund - Non-Homestead	209,640,566	13.3900	2,803,271
1999 Debt Service Fund			
Homestead and Non-Homestead	342,649,357	1.3800	472,840

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. In the General Fund, the School District considers all supplies to be consumed when acquired and any inventories on hand at year-end are considered to be immaterial. The food service inventory consists of food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Improvements	25 - 50 years
Buses and Vehicles	7 - 10 years
Furniture and Other Equipment	5 - 15 years

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. The benefit vests after one year of employment. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements.

At June 30, 2008, the noncurrent liability to the employees for accumulated sick leave and related fringe benefits is estimated at \$33,670. It is reasonably possible that the estimated liability could change significantly due to non-vested teachers leaving the district or a higher or lower than normal use of employee sick leave. The portion of this liability expected to be paid to employees retiring in 2008-2009 was reported as a current liability in the General Fund at June 30, 2008.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and material bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The superintendent and the business manager submit to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent and the business manager are charged with general supervision of the budgets and shall hold the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

6. Budgeted amounts are as originally adopted on June 14, 2007, or as amended by the School Board of Education various times throughout the year.

B. Excess of Expenditures Over Appropriations

Other transactions in the General Fund had expenditures over appropriations of \$67,991 during the year. This amount consisted of adjustments to prior years' state aid by the State of Michigan and was funded by available fund balance.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The District's deposits and investments are all on deposit with banks located in the State of Michigan and Michigan School District Liquid Asset Fund Plus.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$379,044 of the government's bank balance of \$684,344 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

Investments Not Subject to Categorization:

Investment Trust Funds	<u>\$ 2,660,572</u>
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The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 3,119,889	\$ 0	\$ 46,736	\$ 3,166,625

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables			
Due from Other Governmental Units	\$ 28,940	\$ 835	\$ 29,775

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

	Unavailable	Unearned
Grant Received, But Not Yet Utilized	\$ 0	\$ 44,478

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Other Capital Assets:				
Buildings and Improvements	\$ 8,542,342	\$ 19,251	\$ 0	\$ 8,561,593
Furniture and Equipment	118,138	0	0	118,138
Buses and Vehicles	522,738	0	0	522,738
Subtotal	9,183,218	19,251	0	9,202,469
Less Accumulated Depreciation				
Buildings and Improvements	1,878,427	184,921	0	2,063,348
Furniture and Equipment	46,108	8,771	0	54,879
Buses and Vehicles	244,222	41,510	0	285,732
	2,168,757	235,202	0	2,403,959
Net Capital Assets	\$ 7,014,461	\$ (215,951)	\$ 0	\$ 6,798,510

Depreciation for the fiscal year ended June 30, 2008, amounted to \$235,202. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2008:

	Compensated Absences	Bonds	Total
Balance July 1, 2007	\$ 32,630	\$ 4,775,412	\$ 4,808,042
Additions	1,040	0	1,040
Deletions	0	(315,000)	(315,000)
Balance June 30, 2008	33,670	4,460,412	4,494,082
Less Current Portion	0	(355,000)	(355,000)
Total Due After One Year	\$ 33,670	\$ 4,105,412	\$ 4,139,082

Bonds Payable at June 30, 2008 is Comprised of the Following Issues:

1999 School Building and Site Bonds; due in annual installments of \$355,000 to \$575,000 through May 1, 2015, interest at 5.00% to 5.10% \$ 3,305,000

2003 School Improvement (QZAB) Bonds; due June 1, 2018; interest rate of zero. 1,125,000

1998 School Improvement Bond (Durant); due in installments of \$3,617 to \$24,301 through May 15, 2013; effective interest rate of 4.761353%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment if these bonds. 30,412

Total Bonded Debt \$ 4,460,412

The annual requirements to amortize debt outstanding as of June 30, 2008, including interest payments of \$728,901 are as follows:

Year Ending June 30,	Principal	Interest	Amounts Payable
2009	\$ 355,000	\$ 169,987	\$ 524,987
2010	395,700	151,537	547,237
2011	437,719	129,768	567,487
2012	503,483	107,938	611,421
2013	523,510	83,226	606,736
2014-2018	2,245,000	86,445	2,331,445
	4,460,412	728,901	5,189,313
Compensated Absences	33,670	0	33,670
	\$ 4,494,082	\$ 728,901	\$ 5,222,983

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
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The annual requirements to amortize the accrued compensated absences are uncertain because it is unknown when the employees will use the leave time.

E. Short-Term Debt

The District incurred no short-term debt activity for the year.

F. Interfund Receivables, Payables, and Transfers

There were no interfund receivables and payables at June 30, 2008.

Interfund transfers are as shown in the individual fund financial statements at June 30, 2008, were:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 119,870
School Service Fund - Food Service Fund	51,132	0
School Service Fund - Athletic Activities Fund	68,738	0
Capital Projects - Sinking Fund	0	64,352
Debt Service Fund - QZAB	64,352	0
	<u>\$ 184,222</u>	<u>\$ 184,222</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the School must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies.

G. Durant Settlement

As a result of the Durant v State of Michigan settlement regarding state under funding of school revenues, the District will be receiving \$5,050 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, the District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose. Settlement proceeds were restricted for use on schools buses, electronic instructional material and software, school security, textbooks, technology, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt issued prior to November 19, 1997.

H. 2003 School Improvement Bonds

The 2003 School Improvement Bonds are "qualified zone academy bonds" (QZAB) under Section 1397E(d)(6) of the Internal Revenue Code, allowing holders of the bonds certain income tax credits. The QZAB bonds are due June 1, 2018 but require annual deposits of \$64,352 into a sinking fund beginning June 1, 2004. The sinking fund deposits plus the interest earned thereon, which is fixed at

NORTHPORT PUBLIC SCHOOL
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NOTES TO FINANCIAL STATEMENTS
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2.15%, will be sufficient to pay off the bonds upon maturity. This fund has accumulated \$337,838 as of June 30, 2008. The required annual deposits are to be funded by the Capital projects sinking fund.

I. Sinking Fund Tax Levy

On June 10, 2002, the taxpayers approved a sinking fund tax levy. The School is authorized to levy 1.00 mills for five years which ended with the 2006 tax roll. No further levies have been authorized and there was no actual levy for the 2007 tax roll. The sinking fund will be used for the repairs of school buildings and to fund the 2003 School Improvement Bonds. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

J. Single Audit Report

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a “single audit” of federally funded programs. At June 30, 2008, the School District’s expenditures for federally funded programs were less than \$500,000 and therefore, the District is not required to have a “Single Audit for the fiscal year ended June 30, 2008.

K. Lease Information

The rental expense for the year ended June 30, 2008 was \$15,832.

The rental expense consists of lease agreements on various equipment and real estate. The future minimum lease payments for these leases are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2009	\$ 15,832
2010	15,832
2011	8,728
2012	8,728
2013	8,728
	<u>\$ 57,848</u>

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description - The District contributes to the statewide Michigan Public School Employees’ Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008, were 17.74% from July 1 2007 to September 30, 2007 and 16.72% from October 1 2007 to June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were \$254,965 \$256,034, and \$228,819 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

C. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

D. Sale of Future Revenues

For several years, the District has sold its rights to delinquent real property tax revenues and related late payment penalties to the Leelanau County treasurer. For the 2007 tax roll the District received a lump sum payment of \$87,698 for general operating tax revenues and \$13,546 for debt service tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the District will have to repay the county.

E. Contingency

The District has an on-going and costly special education hearing. The outcome of this hearing is uncertain, but it is probable that the District has incurred some liability, even if only for some costs associated with the court reporter or administrative law judge. These costs will not use expendable available financial resources because they are not immediately due. Therefore, the liability estimation of \$225,000 is only recorded on the government wide financial statements using full accrual accounting. In the General Fund financial statements, which use modified accrual accounting, no liability is recorded, but fund balance has been designated to indicate potential future use.

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u> <u>AMOUNTS</u> <u>BUDGETARY</u>	<u>VARIANCE</u> <u>WITH FINAL</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BASIS</u>	
<u>REVENUES</u>				
Local Sources	\$ 2,945,880	\$ 2,952,920	\$ 2,914,700	\$ (38,220)
State Sources	133,681	88,173	157,633	69,460
Federal Sources	124,653	222,967	222,467	(500)
Other Transactions	49,460	78,896	141,330	62,434
Total Revenues	3,253,674	3,342,956	3,436,130	93,174
<u>EXPENDITURES</u>				
Instruction	1,680,633	1,663,899	1,654,079	9,820
Supporting Services	1,453,116	1,721,391	1,429,715	291,676
Community Services	3,500	3,500	3,000	500
Other Transactions	0	0	67,991	(67,991)
Total Expenditures	3,137,249	3,388,790	3,154,785	234,005
Excess (Deficiency) of Revenues Over (Under) Expenditures	116,425	(45,834)	281,345	327,179
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers Out	(116,425)	(126,500)	(119,870)	6,630
Net Change in Fund Balance	0	(172,334)	161,475	333,809
<u>FUND BALANCE</u> - Beginning of Year	881,811	1,046,537	1,046,537	0
<u>FUND BALANCE</u> - End of Year	\$ 881,811	\$ 874,203	\$ 1,208,012	\$ 333,809

NORTHPORT PUBLIC SCHOOL
NORTHPORT, MICHIGAN

NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>		<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>FOOD SERVICE</u>	<u>ATHLETIC</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 12,420	\$ 14,358	\$ 26,778
Due from Other Governmental Units	835	0	835
Inventory	1,130	0	1,130
Total Assets	\$ 14,385	\$ 14,358	\$ 28,743
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Total Liabilities	\$ 0	\$ 0	\$ 0
<u>FUND BALANCES</u>			
Reserved for Inventory	1,130	0	1,130
Unreserved			
Undesignated	13,255	14,358	27,613
Total Fund Balances	14,385	14,358	28,743
Total Liabilities and Fund Balances	\$ 14,385	\$ 14,358	\$ 28,743

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

NONMAJOR GOVERNMENTAL FUND TYPES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>		<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>FOOD SERVICE</u>	<u>ATHLETIC</u>	
<u>REVENUES</u>			
State Sources	\$ 6,213	\$ 0	\$ 6,213
Federal Sources	33,199	0	33,199
Other	26,944	11,531	38,475
Total Revenues	66,356	11,531	77,887
<u>EXPENDITURES</u>			
Food Service	118,240	0	118,240
Athletic Activities	0	68,649	68,649
Total Expenditures	118,240	68,649	186,889
Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,884)	(57,118)	(109,002)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	51,132	68,738	119,870
Net Change in Fund Balances	(752)	11,620	10,868
<u>FUND BALANCE</u> - Beginning of Year	15,137	2,738	17,875
<u>FUND BALANCE</u> - End of Year	\$ 14,385	\$ 14,358	\$ 28,743

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

September 12, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education
Northport Public School
Northport, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northport Public School for the year ended June 30, 2008, and has issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Northport Public School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Northport Public School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Northport Public School are described in Note I to the financial statements. No new

accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

September 12, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Northport Public School
Northport, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northport Public School, Northport, Michigan, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northport Public School, Northport, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northport Public School, Northport, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northport Public School, Northport, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties and have taken measures of management oversight to help compensate for this limitation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northport Public School, Northport, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.